CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

PRESS RELEASE

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Federal Tax Incentives Expanded to Help Families Pay for College

June 21, 2001 – Sacramento – President Bush has signed into law comprehensive and significant tax relief that included several provisions that provide additional assistance to families in funding higher education expenses. The federal legislation was signed on June 7, 2001 and will help many Californians pay for college, according to the California Postsecondary Education Commission.

Commission Executive Director Warren H. Fox said most of the new tax law is effective on or after January 1, 2002. He encouraged families to become familiar now with the changes in order to better plan education financing and thereby take full advantage of these tax breaks and maximize savings. He said, while there are no deductions for contributions to savings, there are certain deductions for tuition and incentives for saving.

The following is a brief summary of these "education incentives." A financial or tax advisor should be consulted to best determine how these provisions may affect individuals taxpayers. Most of the new provisions "sunset" December 31, 2010. Congress would have to act to extend them.

Qualified State Tuition/Savings Plans (QSTP)

In California, through the Scholarshare Trust Program, families can save for future college expenses and are exempt from paying federal or state taxes on the interest earned while participating in the program. Currently, interest earnings are taxable to the beneficiary upon distribution. Under the new tax bill, funds withdrawn after December 31, 2001 for qualified expenses (tuition, room & board, books, supplies and fees) are not subject to any federal income taxes. However, under the new bill, non-qualified withdrawals

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are subject to a penalty. California's Scholarshare Trust Program is at 1-877-SAV-4-EDU (1-877-728-4338) or access their website at http://www.scholarshare.com.

Employer provided educational assistance

The new tax bill makes permanent excluding from income up to $5,250 per year of certain employer-paid educational expenses (tuition, fees, books, supplies but not room & board). The education does not have to be work related, but the employer must maintain a qualified program. Graduate-school expenses are reinstated as allowable exclusions.

Education IRAs

There are also changes in Education IRA accounts for minor children (account earnings are exempt from federal income taxes when used for qualified educational expenses). The new law sets a contribution limit of $2,000-per-year-per child for most joint and single filers, with lower limits for higher-income brackets. Education IRAs are phased out completely for those in the highest income brackets.

Qualified withdrawals from Education IRAs are expanded to include tuition, fees, academic tutoring, books, supplies, room and board, uniforms, transportation, computer technology or equipment for kindergarten through grade 12 at any school as well as at institutions of higher education. Similar to other IRA programs, contributions may be made up to the time of filing a return, and may also be made in the same taxable year in which contributions to a QSTP plan are made. Entities other than individuals, such as corporations, may also make contributions without reference to an income level.

Tax Deductions for Higher Education Tuition and Fee Payments

There is a new, above-the-line tax deduction for higher education tuition and related expenses. Introduced by Senator Bob Torricelli (D-NJ), it provides relief to families with an adjusted gross income (AGI) too high to qualify for the Hope and Lifetime Learning tax credits. Single filers with AGI of up to $65,000 ($130,000 for joint filers) can deduct $3,000 per year in 2002 and 2003, and $4,000 per year in 2004 and 2005. The new deduction expires in 2005. Taxpayers are limited to using only one of the three tax breaks on their returns (e.g., Hope credit, Lifetime credit, or the new deduction).

Student-Loan Interest Deduction

The maximum allowable deduction for interest on qualified education loans has been calibrated to filers' income levels, with many middle- and lower-income taxpayers still eligible for a maximum allowable deduction of $2,500 per year. Those with higher incomes will be eligible to deduct only a portion of the interest on a qualified educational loan. These income levels are to be adjusted annually for inflation. In addition, there is no longer a limitation on the term of the loan or prohibition of voluntary payments.

California families are encouraged to seek additional information on these programs and the new changes to assist in paying college expenses.